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JANUARY 1989 VOLUME 49 NUMBER 4

COVER: Document Deadline

Paperwork is the bane of most people's existence. But mortgage documents are the building blocks that the entire secondary market rests upon. During the refinance boom of 1986-87, some of the key legal paperwork that makes up a loan file got a rush job. That faulty paperwork showed up in title insurance policies, mortgage insurance certificates and even in recorded deeds. Finally, in an attempt to crackdown on the lingering stack of older pools with faulty documents, Ginnie Mae set a deadline for getting pools finally certified. That document deadline is now upon us.

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COVER PHOTOGRAPHY BY BOB GROVE

Message for a New Year

When one thinks about currently overworked terms in the industry, quality control ranks near the top. But there hardly could be a more critical concept in mortgage banking these days.

What may be news, however, is that the need for quality control extends equally from the front-end of the business to the often overlooked, back-end of the operation where the key documents are assembled for mortgages backing a Ginnie Mae pool.

Quality control on the production side of the business became critical when investors started demanding buybacks and indemnifications for claims on loans that violated the letter of the investor's law. That was a pocketbook issue. But the need for improved quality control in the pool documentation area was a lesson only thoroughly learned in 1988. Again, it was the pocketbook that figured into the learning curve, and a directive from Ginnie Mae setting a deadline for getting older pools finally certified. That combination triggered a scramble for old loan documents that shook up issuer's back-office operations for much of last year.

But the industry responded positively to the new deadline that takes effect this month. It now appears that a renewed commitment to quality control has rippled all the way down through every aspect of the business. That leaves the industry in a good position to greet the coming of a new year.

This issue also reviews a new attitude of cost-consciousness in the servicing department. The unfettered competition now squeezing profit margins to the bone is conforming to Adam Smith's eighteenth century economic formula—leaving the consumer as the sole beneficiary, one of our authors notes. Not news to anyone in the business is the fact that the "unregulated" world of mortgage banking is becoming more regulated than ever. An article reviews that on-going trend and another offering examines the civic-business reasons that mortgage bankers get involved with promoting growth and housing in their communities.

Janet Reilley Hewitt
Editor

COMING IN FEBRUARY

Mortgage Finance Meets the Supercomputer

Next month's cover story will focus on how MBS research departments on Wall Street are shaping the kinds of mortgages that get offered to the average borrower on the street. MBS research department heads talk about how they use supercomputers and million dollar software models to determine pricing and prepayment factors for certain types of originations.

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VITAL STATISTICS

INTEREST RATES & YIELDS

1- TO 4-FAMILY MORTGAGES

	FHA OPINION SURVEY	FHLBB			FNMA		FHLMC	
1988	FHA New Homes[1]	CONVENTIONAL[2] FRM	ARM	Median Cost of Funds FSLIC Institutions	1-Yr. ARM	FRM Conv.	ARMs	FRMs
JUL	10.66%	10.50%	8.44%	7.14%	8.70%	10.26%	7.84%	10.43%
AUG	10.70	10.56	8.47	7.21	9.10	10.49	8.01	10.60
SEP	10.66	10.64	8.51	7.21	8.99	10.25	8.14	10.48
OCT	**10.41**	**10.69**	**8.58**	**NA**	**8.86**	**9.97**	**8.12**	**10.30**

SELECTED SECURITIES

		PRIME COMMERCIAL PAPER	U.S. GOVERNMENT				
1988	FEDERAL FUNDS RATE	(3-Month)	6-Month	1-Year	3-Year	10-Year	A-Rated Utility
AUG	8.01%	8.26%	7.39%	8.17%	8.77%	9.26%	10.45%
SEP	8.19	8.17	7.43	8.09	8.57	8.98	10.26
OCT	8.30	8.24	7.50	8.11	8.43	8.80	10.11
NOV	**8.35**	**8.66**	**7.86**	**8.48**	**8.72**	**8.96**	**10.12**

CURRENT SECONDARY MARKET YIELDS

1988	GNMA[3]	FNMA[3]	FHLMC[3]
AUG	10.30%	10.27%	10.24%
SEP	10.11	10.09	10.06
OCT	9.96	9.97	9.95
NOV	**9.98**	**9.91**	**9.89**

SPREADS

(Basis Points)

	GNMA	FNMA	FHLMC
	Minus 10-Yr. Govt.	Minus 10-Yr. Govt.	Minus 10-Yr. Govt.
AUG	104	101	98
SEP	113	111	108
OCT	116	117	115
NOV	**102**	**95**	**93**

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage-Backed Securities						Pass-Through Securities	
1988	Commitments	Purchases	Outstanding	Issued	Commitments To Sell	Commitments To Buy	Mortgages Purchased	Mortgages Sold	Applications	Issued
JUL	$1,108	$1,960	$160,636	$4,895	$3,445	$5,328	$3,879	$4,116	$5,514	$6,306
AUG	1,041	1,638	163,253	4,261	4,095	3,480	3,858	3,719	6,517	6,327
SEP	1,439	1,111	167,170	5,622	4,234	6,208	4,192	3,728	5,975	5,684
OCT	**1,740**	**1,488**	**170,395**	**4,772**	**NA**	**NA**	**NA**	**NA**	**5,599**	**5,823**
1987 TOTAL	25,415	20,531	---	63,230	68,210	76,615	76,840	75,018	116,611	96,983
1986 TOTAL	32,987	30,826	---	60,566	107,209	136,179	103,474	102,431	152,911	98,169
10 MONTH AVG.[4]										
1988	2,080	1,979	---	4,404	3,280	5,122	3,343	2,929	4,848	4,779
1987	1,940	1,549	---	5,415	6,774	7,204	7,502	7,329	10,833	8,760
1986	2,990	2,549	---	4,944	8,364	11,843	7,860	7,657	12,922	7,643

Housing Activity

Residential Structures

(Units in Thousands, Seasonally Adjusted Annual Rates)

	BY TYPE OF UNIT						BY REGION							
	HOUSING STARTS			BUILDING PERMITS			HOUSING STARTS				BUILDING PERMITS			
1988	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Northeast	Midwest	South	West	Northeast	Midwest	South	West
JUL	1,477	1,119	358	1,420	1,063	357	257	285	562	373	225	255	546	394
AUG	1,461	1,139	322	1,464	1,096	368	218	241	570	432	215	253	562	434
SEP	1,449	1,108	341	1,394	1,049	345	207	249	560	433	192	251	547	404
OCT	**1,554**	**1,219**	**335**	**1,497**	**1,112**	**385**	**202**	**268**	**586**	**498**	**209**	**258**	**550**	**480**
1987 TOTAL	1,621	1,212	409	1,535	1,114	421	269	298	634	420	272	282	575	406
1986 TOTAL	1,805	1,263	542	1,769	1,186	584	294	296	733	483	283	290	687	510
10 MONTH AVG. (SAAR)														
1988	1,481	1,140	341	1,431	1,067	364	249	267	565	401	242	261	533	595
1987	1,655	1,240	415	1,568	1,137	431	278	311	636	430	277	298	583	410
1986	1,828	1,268	560	1,771	1,181	590	301	295	753	480	283	289	703	496

Home Sales

(Units in Thousands)

	EXISTING HOMES			NEW HOMES		
1988	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate
JUL	3,630	2,500	8.3	703	365	6.4
AUG	3,710	2,520	8.2	718	363	6.2
SEP	3,670	2,420	7.9	708	361	6.4
OCT	**3,630**	**2,200**	**7.3**	**733**	**356**	**5.9**
1987 TOTAL	3,526	---	---	671	---	---
1986 TOTAL	3,565	---	---	750	---	---
10 MONTH AVG. (SAAR)						
1988	3,532	---	---	683	---	---
1987	3,561	---	---	684	---	---
1986	3,487	---	---	748	---	---

Value of New Private Construction Put in Place

(Units in Billions of 1982 Dollars, Seasonally Adjusted Annual Rates)

Total[5]	1–Unit	2+ Units	Nonresidential
$279.5	$101.3	$19.3	$77.2
282.8	102.2	19.1	76.9
283.0	103.1	19.3	75.9
284.1	**104.6**	**19.0**	**76.1**
283.0	100.7	22.4	78.2
281.8	92.0	28.0	79.8
280.0	102.9	19.3	77.6
281.8	100.0	22.6	77.5
280.6	90.3	28.0	80.4

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Type of Unit
(Dollars in Millions)

1988	1-4 UNITS					5+ UNITS					NONRESIDENTIAL				
	Total[4]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[4]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[4]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies
APR	$28,420	$6,702	$14,153	$7,062	$165	$2,744	$270	$1,475	$414	$430	$14,276	$28	$1,619	$10,477	$1,737
MAY	33,300	7,277	16,518	8,899	253	3,253	256	1,636	883	323	16,654	48	1,872	11,795	2,802
JUN	41,765	9,914	20,031	10,938	464	3,844	593	2,167	711	188	16,074	63	2,256	10,551	3,095
JUL	**34,386**	**7,685**	**17,072**	**8,823**	**495**	**3,513**	**837**	**1,582**	**701**	**254**	**14,839**	**128**	**1,844**	**9,640**	**3,063**
1987 TOTAL	449,544	110,093	208,054	124,551	3,209	44,981	2,409	22,492	8,299	3,547	168,652	2,871	25,613	110,490	28,160
1986 TOTAL	455,054	131,628	207,182	108,613	3,814	49,868	7,172	22,769	7,176	3,723	147,374	4,084	27,306	83,929	29,906
7 MONTH AVG.															
1988	29,565	7,057	14,329	7,608	231	2,906	380	1,553	566	246	14,702	61	1,836	10,431	2,157
1987	42,001	11,088	18,575	11,747	318	4,221	209	1,823	836	266	12,402	307	2,048	8,575	1,885
1986	32,775	9,816	15,332	7,033	263	3,415	449	1,473	420	306	9,889	247	1,933	5,548	1,991

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

1988	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	TOTAL	FHA[8]	VA	PRIVATE	TOTAL		FHA		VA		PRIVATE	
					Units	Amount	Units	Amount	Units	Amount	Units	Amount
JUL	147	75	18	55	130	$9,565	72	$4,383	17	$1,287	41	$3,895
AUG	162	85	22	55	129	9,588	66	4,070	19	1,451	43	4,068
SEP	**141**	**72**	**19**	**50**	**117**	**8,732**	**59**	**3,655**	**20**	**1,505**	**38**	**3,572**
OCT	**135**	**70**	**19**	**46**	**129**	**9,468**	**75**	**4,642**	**18**	**1,389**	**36**	**3,437**
1987 TOTAL	2,340	1,211	408	721	2,282	159,668	1,320	81,881	451	33,312	511	44,475
1986 TOTAL	3,281	1,907	450	923	1,853	127,757	921	56,901	346	24,718	586	46,138
10 MONTH AVG.												
1988	151	82	18	51	114	8,315	60	3,654	18	1,307	36	3,354
1987	211	111	37	63	203	14,179	119	7,380	40	2,992	44	3,807
1986	287	170	37	80	149	10,249	72	4,444	28	1,970	49	3,835

NA—Not Available; SAAR—Seasonally Adjusted Annual Rate

[1]Secondary market gross yields. Numbers shown for each month are the average of yields from the first day of the month shown and the first day of the subsequent month.

[2]Effective rate on loans closed.

[3]Securities for 0 to 30 day delivery.

[4]Average covers one month less for FHLMC.

[5]In addition to the categories of private construction shown, the total also includes these categories: residential improvements, railroads, electric light and power, gas, telephone and telegraph, petroleum pipelines, and farm nonresidential.

[6]In addition to the categories shown, the total also includes private pension funds, private MBS conduits, state and local retirement funds, Federal credit agencies, mortgage pools, and state and local investment agencies.

[7]Savings & Loans and Mutual Savings Banks.

[8]FHA applications received includes the Direct Endorsement Program.